

AR27



CANADA GROWTH FUND



CANADA SECURITY FUND

ANNUAL REPORT 1966



CANADA SHOWS THE WORLD

More than 10 million people — and more than half of them Americans — will visit Montreal for Expo 67, "the Universal and International Exhibition of 1967." Its basic theme will be "Man and His World." From April 28 to October 27, 1967 some 70 nations, the largest number ever to take part in a world exhibition, will show their traditions, cultures and industrial development.

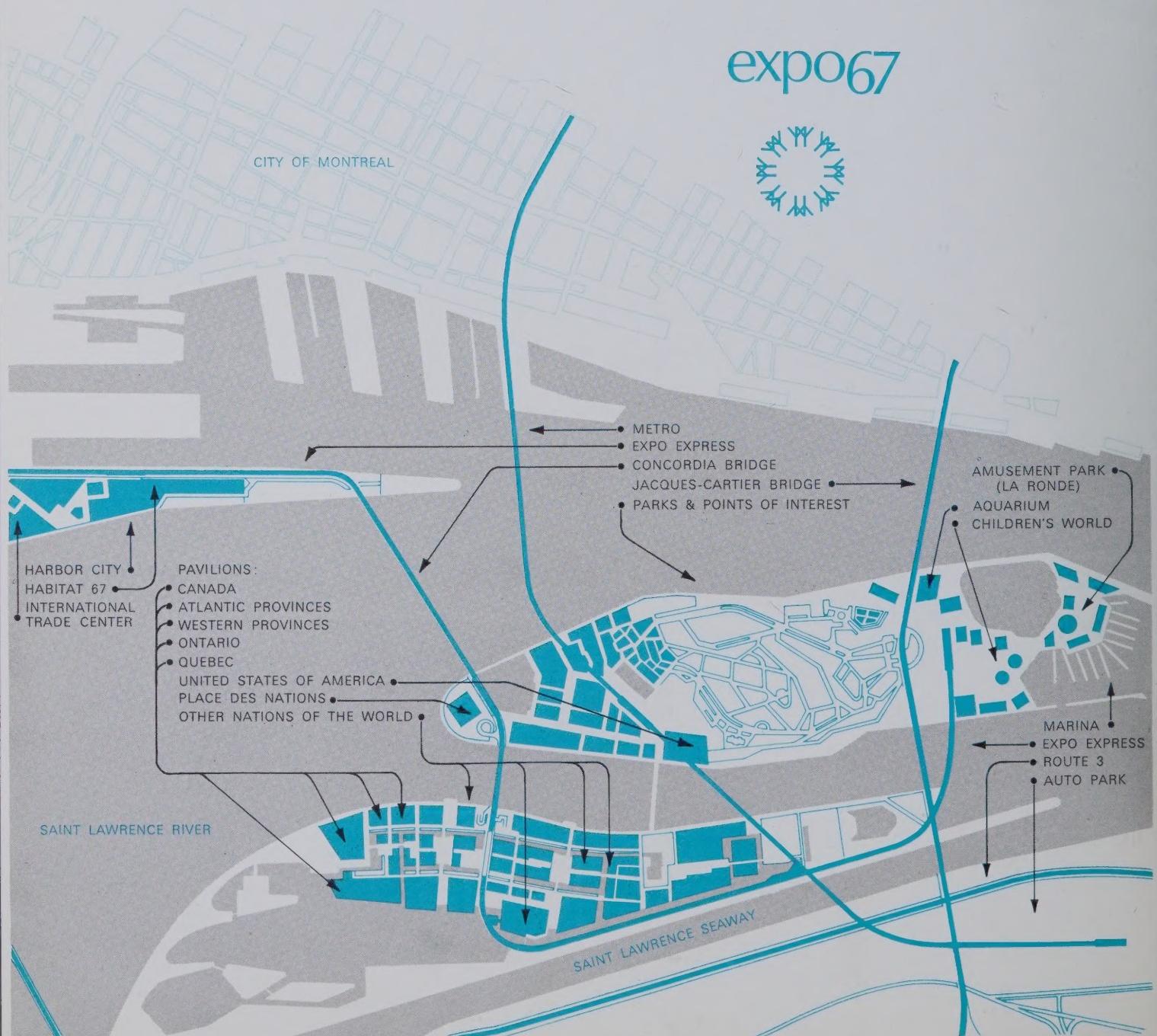
Many portfolio companies of Canada Growth Fund will be participants in Expo 67 — itself built on two islands and an enlarged breakwater in the St. Lawrence River. Some 30 million tons of fill were used, resulting in 1,000 acres of grounds, an area twice that of the recent New York World's Fair.

There will be many ways of getting to, and around, the grounds. Montreal is completing a subway, unique on the North American continent in that the trains ride on rubber tires.

Then there is the "Expo Express," a free, 3½-mile elevated electric railway connecting the major areas of the exhibition and able to carry a total of 60,000 passengers an hour.

Expo 67 marks the 100th anniversary of the Articles of Confederation, under which the separate provinces were united.

Thus, it gives Canada and Canadians a major opportunity to show the world what they have already achieved and will accomplish in the future.



REPORT OF THE PRESIDENT Planned Investment Management Ltd.

The year 1966 was a difficult one for investors. In the beginning confidence was high in the light of favourable economic forecasts, and record levels were reached in February by both Canadian and American stock exchange averages. However, as evidence gathered of increasing strains on the economy, and with the growth of inflationary pressures of a type which threatened corporate profits, investor confidence waned. As a result, market values declined irregularly to a low in October, including a drop in the prices of shares of many of the most promising growth industries. At the same time, monetary restraints which had been anti-inflationary in purpose contributed to a continued acute shortage of capital, with a resulting further deterioration in the bond market. Consequently, even those investment portfolios which were moved into higher proportions of bonds found this no escape from value shrinkage during the year. It is with this background that we report to you on the position of Canada Growth Fund and its companion bond fund, Canada Security Fund. While the year has been a trying one for portfolio managers, grounds can now be found for confidence that the months ahead will be kinder to us. In any event, shareholders are urged to look beyond immediate past investment performance with two basic questions in mind: (1) how has my investment fared relative to the markets as a whole and to alternative investments, and (2) does justification continue for the conviction that my investment will produce favourable long-term results? Let us refer, first of all, to Canada Growth Fund.

Total assets of the Fund at year end were \$13,814,953, down slightly from \$14,542,581 at December 31, 1965, but up 9.5 per cent from \$12,614,742 at the end of the third quarter. Total shareholders were 5,672 about the same as a year ago, with shares outstanding 2,476,529, up from 2,361,695 the previous year. Net asset value per share at December 31 was \$5.58 after deducting the year-end distribution of ten cents per share payable to shareholders of record December 30 last. This share value was down from \$6.16 one year previously, but up from \$5.24 as of September 30 by 8.4 per cent inclusive of the year-end distribution. This sharp recovery in value has continued since the first of the year.

It is significant to note that your Fund's decline in net asset value per share in 1966 of 9.4 per cent compares with a decline in the Toronto Stock Exchange Industrial Index of 12.4 per cent, and a drop in the Dow Jones Industrial Index of 18.9 per cent in the same period. Not only did the portfolio securities selected for the Fund not fall as sharply as the market as a whole, but their value has been recovering at a more rapid rate since the October low.

In keeping with its published investment policy, your Fund has concentrated on quality securities in pursuit of its growth objective. Traditionally, we have also given weight to long-term prospects for individual portfolio investments rather than short-term performance. However, gradually over the past two years changes have appeared in the behavior of stock markets. To some extent they now seem to reflect the fact that institutional investors such as mutual funds have become increasingly active traders. More and more emphasis is being placed on short-term performance through aggressive portfolio management. It was as a result of this a year ago we reported to you that a number of portfolio changes were being made to give greater weight to short-term market influences. At the same time, we have considered it desirable to maintain a prudent combination of reasonable risk taking and investment soundness in our pursuit of competitive investment performance.

With a greater concentration on the short and medium term, and with a more far-ranging search for new growth opportunities, the investment adviser has been able to produce increasingly favourable results relative to the popular market averages.

Turning to Canada Security Fund, the total assets at year end remained about the same as last year at \$1,003,080. Shares outstanding were 208,716, a slight increase over the figure at the end of 1965. Net asset value per share after deducting the year-end income distribution was \$4.81 at December 31, a decrease of 2.6 per cent from \$4.94 the previous year end. The Fund declared a quarterly income distribution of 6.32 cents payable to shareholders of record December 30. This brought the total income distributions for 1966 to 25.04 cents per share as compared with 19.67 cents in 1965.

Once again the investment adviser of this Fund managed to improve significantly upon the performance of the bond market as a whole which showed a decline on the year of about 6.5 per cent, which compares with the 2.6 per cent decline in the share value of your Fund. Thus, the active bond portfolio management provided by the Fund continues to represent a real plus for the bond investor who chooses this vehicle. It also serves as an indication that given a reasonably stable bond market, if not an improved one, your Fund should be able to produce an effective combination of income and capital growth most attractive for a defensive type of investment. During 1966 bond prices as a whole reached their lowest levels in about 35 years. As mentioned above, this reflected, in part, tight money policies of governments in both Canada and the United States which had been maintained as an anti-inflationary measure. However, these same policies have had an undesirably depressing effect on the housing industry, with the result that we face a growing shortage of desirable living accommodation. Governments in both Canada and the United States have now turned more to fiscal measures for controlling the economy, leaving the prospect of some relaxing of monetary restraints. While tight money is likely to continue for some time ahead, some strengthening of the bond market has already occurred, and the likelihood now exists of a somewhat more favourable climate for bond investment in 1967. Therefore, with continuing high yields and a firmer market, it is reasonable to anticipate more attractive total investment performance for Canada Security Fund in 1967.

During 1966 the economies of both Canada and the United States operated at high levels and set new records. Estimates of the Canadian Gross National Product approach \$58 billion, a gain of almost 11 per cent from 1965. In 1966 the U.S. GNP was probably close to \$739 billion, up 9 per cent from 1965. Industrial production was up 7 per cent in Canada and 9 per cent in the U.S. Personal consumption expenditures were nearly \$35 billion in Canada and \$466 billion in the U.S., both showing a gain of about 8 per cent. Corporate profits showed good increases during the year in both countries but the inflationary pressures brought on by the substantial increase in capital spending and higher labor costs began to reduce this rate of gain towards the end of the year. The Consumer Price Index in both countries was up about 3½ per cent from 1965. The only real soft spot in both countries during the year was residential homebuilding, referred to above, due primarily to tight money and the lack of mortgage funds.

In 1967 the economies of both Canada and the U.S. should again operate at record levels although the rate of gain will be reduced. Early forecasts predict a Canadian Gross National Product of \$62 billion, a gain of 7 per cent, and a U.S. GNP of \$781 billion, up 6 per cent. Continuing price inflation will probably reduce these gains in real terms. Consumer spending should remain at high levels and some easing in money rates could bring renewed vigor to the homebuilding industry.

The stock market, of course, in its own mysterious way, discounts future events well in advance. Apprehensions about the effect of the stresses on the economy were largely responsible for the lapse in investor confidence which manifested itself in the stock market dip in 1966. This was in spite of the fact that the problems were largely deferred in their effect and could not be expected to be felt until 1967. The probability now appears that the market over-estimated the reduction in growth rates this year, and North American economies will likely demonstrate a virility that will justify a more positive outlook.

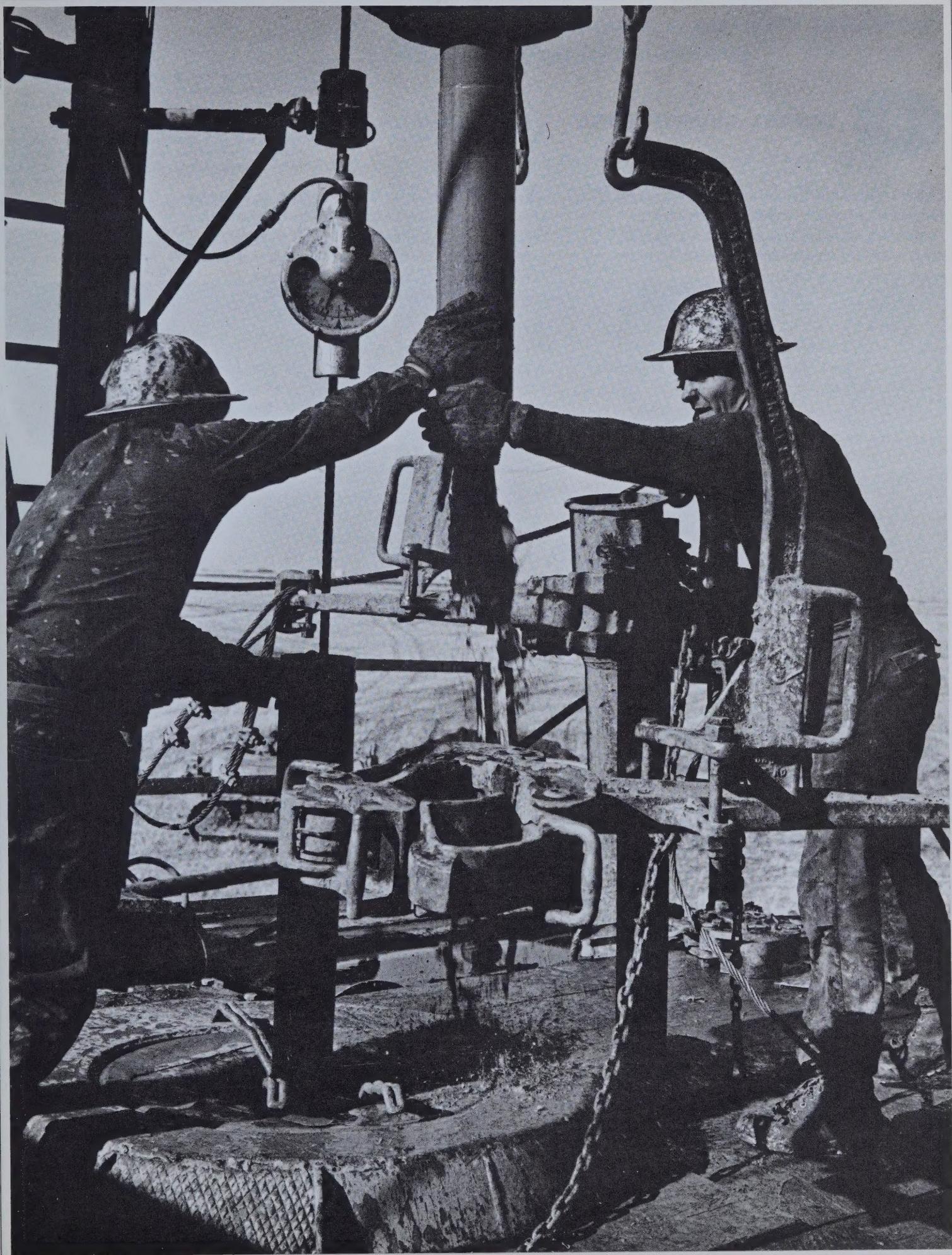
It is true that the economy both here and in the United States seems delicately poised between inflation on the one hand and a mild recession on the other. However, investors are apparently deciding that this is not necessarily cause for pessimism and that even a mild recession simply would mean, for a time, a somewhat less rapid rate of growth.

Therefore, while the stock markets will continue to fluctuate and we may even see some further testing of the low point of last October, it becomes more evident as we move into the new year that the difficulties ahead have already been discounted by investors. While the search for investment performance this year will demand a high degree of selectivity, and many stocks with good long-term promise may well decline in value during the year, there is no doubt that buying opportunities today are better than they were a year ago. At current price levels, there is more real value in the shares of many well-managed companies than we have seen for some time. Furthermore, many institutional investors including the mutual funds have accumulated massive amounts of cash — several billions of dollars — which represent a reservoir of buying power which can be expected to take advantage of market opportunities in the next few months. Even as this is written, the day after President Johnson requested his sharp tax increase, the stock market bounced back strongly from the inevitable morning reaction to show a substantial net gain on the day with volume on the New York Stock Exchange the third highest in history — surely a sign of underlying strength which augurs well for the 1967 investor generally and, we are confident, for the shareholder of the two Funds here reported in particular.

J. B. Sparling

J. B. Sparling, President

Explorers.
*At Midale, Saskatchewan,
"roughnecks" hook up a drill rod
in the never-ending
search for oil.*



INVESTMENT POLICY



CANADA GROWTH FUND

The primary objective of the Fund is to seek long-term growth of capital by investing in companies, in industries and in geographical areas, where management considers the best opportunity for growth exists.

At the same time, in its pursuit of growth, management gives due regard to the exercise of prudence to the end that shareholders' capital may be protected through adequate diversification and constant supervision.

Investments will be, for the most part, in Canadian companies and companies doing business in Canada. They will, however, include varying proportions of securities of selected United States companies and possibly, from time to time, desirable companies situated in other parts of the world.

Selection and holding of portfolio securities will be based on investment value considerations rather than speculative appeal. The Fund is believed, therefore, to represent an effective medium for that portion of an investor's capital which he may wish to have invested primarily in common stocks of investment calibre for long-term growth.



CANADA SECURITY FUND

The primary objective of the Fund is to conserve shareholders' capital and to produce reasonable income. The secondary objective is to secure growth of capital and income through a dynamic investment policy and constant intensive supervision.

It is the present policy of the Fund to pursue its primary objective by investing mainly in the bonds and debentures of governments and well established companies having good prospects for future growth. From time to time it may be the policy of the Fund to invest in convertible debentures or equity type securities whenever it considers it is in the interest of the Fund to do so.

While safety of principal and reasonable income remain primary objectives, the Fund seeks added performance by managing the portfolio actively. To this end bonds purchased for the Fund are not held indefinitely without regard to market conditions. This policy is designed to result in a Fund which represents an effective medium for that portion of an investor's capital which he may wish to have invested primarily in defensive form with the prospect of gradual growth of both capital and income.

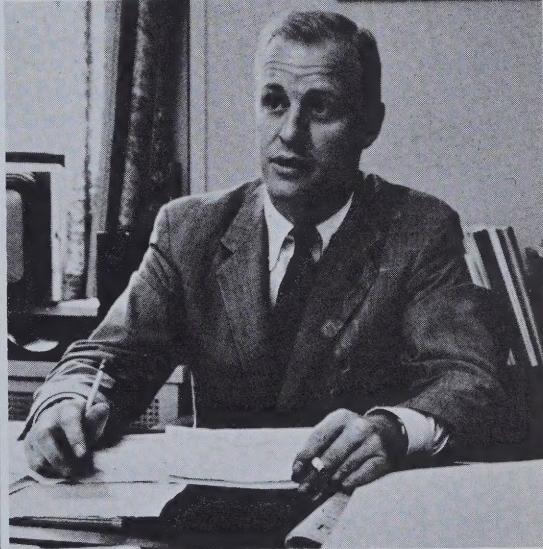
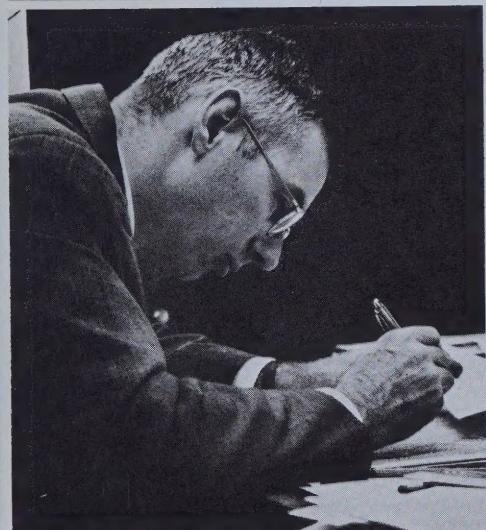
CANADA GROWTH FUND
THE INVESTMENT ADVISER

Edward Motley

Everybody knows that Canada, with wheat, oats and barley is one of the great agricultural nations. In a hungry world, it has its work cut out for it.

Many investors do not realize that Canada is also a major manufacturer of farm machinery. The firm of Massey-Ferguson Ltd., whose shares are currently in your portfolio, is one of the three largest manufacturers of its type in the world.

Over the past eight years, MF has been transformed into a highly aggressive maker of tractors, combines and diesel engines. Some 40% of its output goes to North America, 40% to Europe, and the remainder to Australia, Asia, Africa and Latin America. Thus Canada helps feed the world in more ways than one.



George G. Loring

International Business Machines dominates the fast-growing international data processing market. With strong management in all phases of the business the Company is in a position to benefit from future developments in the use of computers to speed up and improve the information systems needed for our increasingly complex society. We are at the threshold of a new phase in using these systems in many ways that will create greatly increased markets for them.

Theodore E. Bachelder

Since 1947, \$10 billion has been spent for oil exploration and production in Canada. As a result the nation now produces 79% of its own crude oil needs, and exports to the United States are increasing steadily.

Imperial Oil, owned by your Fund, is the leading company in the Canadian industry, with annual gross income in excess of \$1 billion. It is active in all phases, producing about 14% of Canada's crude, and marketing nearly one-third of the nation's total product requirements.

Robert A. Booth

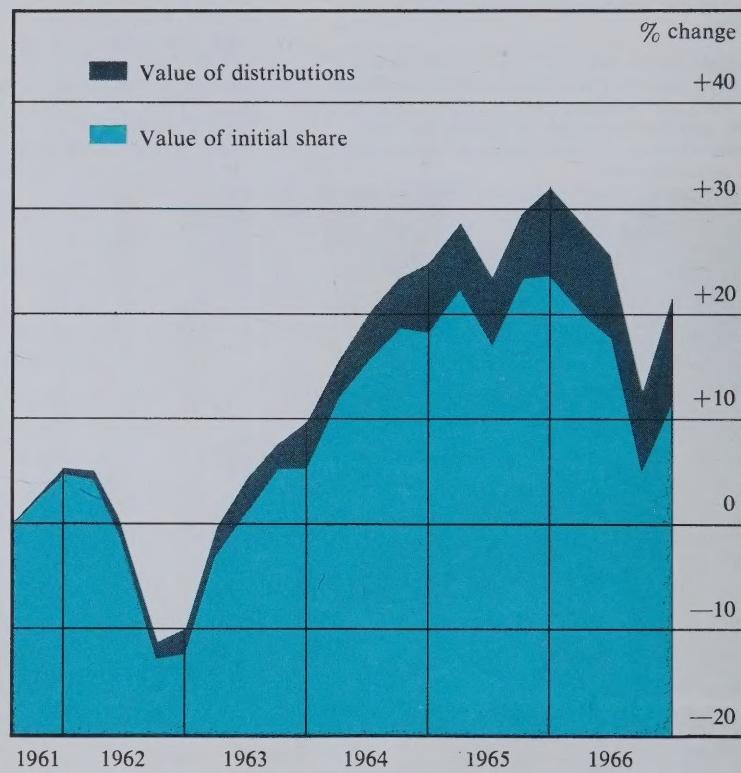
An investment in Canadian Pacific Railway is an investment in Canada itself. With 68,540 employees and 21,454 miles of track, stretching from British Columbia to New Brunswick, it is one of the great railroads of the world. But engines and track are only part of its assets: it also owns a steamship line, an airline and controlling interest in the nation's largest trucking company. Transportation is not the whole story either, for CPR also has an extensive oil and gas drilling program plus significant investments in mining and smelting, real estate, logging, paper and forest products, pipelines, chemicals and agriculture. It is certainly one of the most "well-rounded" corporations in North America.

H. Gilman Nichols

During the past ten years annual expenditures for health and medical services in the United States have grown 138 per cent—nearly twice the gain in Gross National Product. The enactment of "Medicare" and "Medicaid" legislation in the United States during the past year should add important stimulus to this growth. Baxter Laboratories Inc. has been very successful in developing and supplying products for hospital use and the increasing demand for health care should play an important part in the Company's future growth.

INVESTMENT PERFORMANCE

Percentage change in net asset value per share of Canada Growth Fund from its inception at Aug. 15, 1961 to Dec. 31, 1966 based on quarter-end figures with all income distributions reinvested.



Year End	Total Net Assets	Asset Value Per Share	Income Distribution Per Share	Cumulative Income Distributions
1961	\$ 1,214,299	\$ 5.23	3.14¢	3.14¢
1962	2,470,648	4.63	7.43	10.57
1963	4,251,658	5.28	7.46	18.03
1964	12,103,435	5.90	10.23	28.26
1965	14,542,581	6.16	11.00	39.26
1966	13,814,953	5.58	10.00	49.26



CANADA GROWTH FUND



CANADA GROWTH FUND

PORTFOLIO OF INVESTMENTS as at December 31, 1966

SECURITY	Shares held	Market value (note 5)	Shares held	Market value (note 5)
AGRICULTURAL AND AUTOMOTIVE (4.98%)				
Hayes-Dana Steel Products Ltd.	20,750	186,750	The Alberta Gas Trunk Line Company Limited "A"	4,000 121,500
Massey-Ferguson Limited	18,420	416,752	Interprovincial Pipe Line Company	1,400 117,950
Ontario Steel Products Company Ltd.	3,000	84,000	Southern Natural Gas Co. (U.S.)	11,700 419,960
		<u>687,502</u>	Trans-Canada Pipe Lines Ltd.	5,000 122,187
			Westcoast Transmission Company Limited	12,600 318,150
BUSINESS EQUIPMENT (8.77%)				
R. L. Crain Ltd.	9,300	267,375		<u>1,099,747</u>
International Business Machines Corporation (U.S.)	1,460	589,313		
Moore Corporation Limited	4,100	354,650		
		<u>1,211,338</u>		
CHEMICALS, DRUGS AND HEALTH (5.75%)				
Baxter Laboratories, Inc. (U.S.)	7,000	305,303	Dominion Stores, Ltd.	12,000 218,250
Du Pont of Canada Ltd.	3,400	119,000	The Oshawa Wholesale Limited "A"	16,700 417,500
Eastman Kodak Co. (U.S.)	2,680	370,264	Safeway Stores, Inc. (U.S.)	3,400 88,421
		<u>794,567</u>	Shop & Save (1957) Ltd.	22,508 270,096
			Simpsons Limited	13,500 374,625
FOREST PRODUCTS (4.21%)				
Consolidated Paper Corporation Ltd.	8,000	306,000	Steinberg's Limited "A"	4,450 83,993
Scott Paper Limited	6,700	102,175		<u>1,452,885</u>
Weldwood of Canada Limited	22,800	173,850		
		<u>582,025</u>		
HEAVY INDUSTRY (.80%)				
Dominion Foundries and Steel, Limited	6,000	111,000		
INSURANCE (5.26%)				
Government Employees Life Insurance Company (U.S.)	4,600	201,873		
The Great-West Life Assurance Company	2,175	128,325	Community Public Service Co. (U.S.)	6,600 243,158
Industrial Life Insurance Company	5,100	107,100	Florida Power & Light Co. (U.S.)	1,300 103,537
The Lincoln National Life Insurance Company (U.S.)	2,600	170,449	General Telephone & Electronics Corp. (U.S.)	2,600 127,485
Transamerica Corporation 4½% pfd. (U.S.)	1,000	118,112	Great Lakes Power Corporation Ltd.	4,912 110,520
		<u>725,859</u>	International Utilities Corporation	11,000 272,250
METALS AND MINING (5.96%)				
Alcan Aluminium Limited	10,975	331,993	Nova Scotia Light & Power Company Limited	10,800 102,600
The International Nickel Company of Canada, Limited	3,000	285,000	Quebec-Telephone	8,634 159,189
Noranda Mines Limited	4,200	206,850	Tucson Gas & Electric Co. (U.S.)	7,700 127,241
		<u>823,843</u>		<u>1,245,980</u>
OILS AND NATURAL GAS (13.08%)				
Dome Petroleum, Ltd.	13,500	494,437		
Home Oil Company Limited "B"	5,300	127,200	Automatic Retailers of America, Inc. (U.S.)	6,000 354,335
Imperial Oil Limited	5,700	328,462	Cenco Instruments Corp. (U.S.)	9,600 365,388
Supertest Petroleum Corporation Limited Ordinary	7,875	153,562	Dennison Manufacturing Co. Class "A" (U.S.)	14,000 621,983
Texaco Canada Limited	2,800	190,050	Howard Johnson Co. (U.S.)	6,000 234,056
Texaco Inc. (U.S.)	3,885	299,419	International Telephone and Telegraph Corporation (U.S.)	4,300 337,810
Tidewater Oil Company (U.S.)	2,700	213,210	Johnson Service Company (U.S.)	4,700 176,341
		<u>1,806,340</u>		<u>2,089,913</u>
MISCELLANEOUS (15.13%)				
Total portfolio of investments (95.36%)			Total portfolio of investments (95.36%)	<u>13,173,024</u>
Net cash and receivables (4.64%)			Net cash and receivables (4.64%)	<u>641,929</u>
				<u>\$13,814,953</u>

PORTFOLIO CHANGES — October 1 to December 31, 1966

HOLDINGS ADDED

Consolidated Paper Corporation Ltd. + 8,000

HOLDINGS INCREASED

Automatic Retailers of America, Inc. (U.S.) + 1,400

Dennison Manufacturing Co. Class "A" (U.S.) + 4,500

The Oshawa Wholesale Limited "A" + 4,500

Quebec-Telephone + 1,234

HOLDINGS ELIMINATED

International Flavors & Fragrances, Inc. (U.S.) — 2,080

MacMillan Bloedel Limited, Pfd. — 2,850

MacMillan Bloedel Limited — 9,000

A. H. Robins Co. (U.S.) — 4,250

The Trane Co. (U.S.) — 2,800

HOLDINGS DECREASED

Baxter Laboratories Inc. (U.S.) — 200

Tidewater Oil Company (U.S.) — 1,300



CANADA GROWTH FUND

BALANCE SHEET as at December 31, 1966

	1966	1965
	\$	\$
ASSETS		
Investments in securities — at quoted market value (average cost December 31, 1966 — \$13,420,916, December 31, 1965 — \$13,186,735)	13,173,024	14,275,953
Cash	622,872	473,889
Subscriptions receivable for shares of the Fund sold	77,082	79,261
Dividends receivable	39,318	50,660
	<u>13,912,296</u>	<u>14,879,763</u>
LIABILITIES		
Accrued expenses	42,125	45,611
Accounts payable for shares of the Fund redeemed	29,763	31,154
Income distribution payable December 30, 1966 (note 1)	25,455	260,417
	<u>97,343</u>	<u>337,182</u>
SHAREHOLDERS' INTEREST		
Shares of no par value issued and outstanding (notes 1 and 2)		
Issued since inception 3,198,956.017 shares	18,132,222	15,860,486
Redeemed 722,426.258	<u>4,254,902</u>	<u>2,655,278</u>
Balance outstanding 2,476,529.759 shares	13,877,320	13,205,208
Realized and unrealized net gains or (losses) on investments	(62,367)	1,337,373
	<u>13,814,953</u>	<u>14,542,581</u>
	<u>13,912,296</u>	<u>14,879,763</u>
Net asset value per share	<u>5.58</u>	<u>6.16</u>

Approved on Behalf of the Manager
 J. B. SPARLING, Director
 R. R. TILDEN, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet and portfolio of investments of Canada Growth Fund as at December 31, 1966 and the statements of income and distribution and realized and unrealized net gains or losses on investments for the five years ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, when read in conjunction with the notes thereto, the accompanying balance sheet and statements of income and distribution and realized and unrealized net gains or losses on investments present fairly the financial position of the Fund as at December 31, 1966 and the results of its operations for the years indicated and the portfolio of investments presents fairly the information it purports to present, the whole in accordance with generally accepted accounting principles applied on a consistent basis throughout the years, except for the change referred to in Note 3, with which we concur.



CANADA GROWTH FUND

STATEMENT OF INCOME AND DISTRIBUTION

For the five years ended December 31, 1966

	Year ended December 31				
	1966 \$	1965 \$	1964 \$	1963 \$	1962 \$
Income from investments —					
Dividends and interest	345,054	350,354	133,576	78,708	44,761
Operating expenses inclusive of fees to sponsor and manager	103,441	103,631	36,760	23,142	12,333
Net income for the year	241,613	246,723	96,816	55,566	32,428
Portion of value of shares issued or redeemed during the year applicable to their participation in the distribution account (notes 2 and 3)	1,462	13,694	—	—	—
Distribution to shareholders	243,075	260,417	96,816	55,566	32,428

STATEMENT OF REALIZED AND UNREALIZED NET GAINS OR LOSSES ON INVESTMENTS

For the five years ended December 31, 1966

	Year ended December 31				
	1966 \$	1965 \$	1964 \$	1963 \$	1962 \$
Balance — beginning of year	1,337,373	802,255	252,279	(139,621)	46,391
Unrealized —					
Increase (decrease) during the year in excess of market value over cost of investments held	(1,337,110)	538,119	318,002	365,989	(184,808)
Realized —					
Gains or (losses) during the year on sales of investments	(62,630)	(3,001)	231,974	25,911	(1,204)
Balance — end of year	(62,367)	1,337,373	802,255	252,279	(139,621)
Represented at December 31 by —					
Unrealized —					
Excess (deficiency) of market value over cost of investments held	(247,892)	1,089,218	551,099	233,097	(132,892)
Realized —					
Accumulated gains less (losses) on sales of investments	185,525	248,155	251,156	19,182	(6,729)
	(62,367)	1,337,373	802,255	252,279	(139,621)

NOTES TO FINANCIAL STATEMENTS for the five years ended December 31, 1966

1. On December 30, 1966, the Fund declared an income distribution of \$243,075 to shareholders of record on that date. Under the option for automatic re-investment of income granted to shareholders, \$217,620 of this amount was applied to the purchase of 39,000 shares of the Fund leaving a balance payable at the year-end of \$25,455. For 1965 the corresponding re-investment was not made until January 31, 1966 and therefore the total distribution for that year of \$260,417 remained payable as at December 31, 1965.

2. During the year 388,750.900 shares of the Fund were issued for cash of \$2,271,736. Also during the year 273,916.282 shares of the Fund were redeemed for \$1,599,624 cash. In addition, a net credit of \$1,462 for 1966 and \$13,694 for 1965 have been included in the statement of income and distribution as explained in note 3.

3. Commencing January 1, 1965, the Fund applied the portion of the issue or redemption price of its shares related to the income

available for distribution at the dates of such issues or redemptions, to the distribution account. In prior years, such amounts were included with the value of shares issued and outstanding.

4. Distributions per share on an annual basis since the inception of the Fund have been as follows:

In respect of the years ended December 31	(cents)
1961	3.14
1962	7.44
1963	7.46
1964	10.23
1965	11.00
1966	10.00

5. The market values of investments quoted in foreign funds have been converted to Canadian funds at the rate of exchange prevailing as at December 31, 1966 and their cost at the rate prevailing on the dates of acquisition.



Angus W. Chisholm, Stephen Longshore, Douglas H. Fullerton, President, John P. S. Mackenzie, Vice-President, Gordon H. Eberts.

Tight money conditions and continuing market deterioration throughout the first three quarters of 1966 compelled Canada Security Fund to pursue a relatively defensive course. For several months during the spring and summer one-third of the assets were maintained in 30 day notes which were yielding, at that time, as much as long-term bonds. This provided the Fund with some insulation against the sharp fall in bond prices during the period. At the same time, it provided liquidity to take advantage of attractive bond offerings which appeared during fall and early winter. The balance of the portfolio was traded actively, following the philosophy that a static portfolio can be far less productive than it should be. This approach allows the purchase of "out of favour" or other cheap bonds which are temporarily depressed

in price, and their re-sale as they reassert their natural levels in the interest rate structure. This activity will undoubtedly increase during 1967 as money eases and bond prices improve.

There are many types of bonds and many different bond markets which have particular features not usually found in Canadian government and corporate bonds and markets. Under the impetus of a demoralized and unrewarding Canadian bond market during most of 1966, the last half of the year saw a gradual move into convertible and U.S. pay bonds which enjoy either broader or more active markets. This shifting of emphasis will probably not, at any one time, employ more than 25 per cent of the Fund's assets and the investment principles which guide the management of the portfolio as a whole will apply as usual.

The outlook for the bond market in 1967 is encouraging. The trend away from extremes of high interest rates and tight money which began late last year is expected to continue. With it will come a healthier market which will allow Canada Security Fund to participate to greater advantage. The meeting of the Fund's objective can be viewed with optimism in 1967.



CANADA SECURITY FUND

		Total Net Assets	Asset Value Per Share	Income Distribution Per Share	Cumulative Income Distributions
1965	1st Quarter	\$ 276,489	\$5.04	4.53¢	4.53¢
	2nd " "	554,785	5.01	4.77	9.30
	3rd " "	837,748	4.94	4.95	14.25
	4th " "	999,794	4.94	5.42	19.67
1966	1st Quarter	997,055	4.88	5.77	25.44
	2nd " "	985,137	4.84	6.50	31.94
	3rd " "	934,363	4.74	6.45	38.39
	4th " "	1,003,080	4.81	6.32	44.71

PORFOLIO OF INVESTMENTS as at December 31, 1966

SECURITY	Rate %	Maturity	Principal amount	Quoted market value (notes 6 & 7)
Province of New Brunswick	5 1/4	Feb. 15, 1990	25,000	21,000
Province of Newfoundland	6 3/4	Jan. 15, 1992	50,000	49,375*
Province of Nova Scotia	6 1/2	Jan. 2, 1992	50,000	50,000*
Province of Ontario	5 1/4	Apr. 15, 1985	50,000	45,250
Alberta Government Telephone	6	Aug. 15, 1991	50,000	48,500
Alberta Municipal Finance Corp.	6 1/4	Nov. 15, 1989	25,000	25,062
Quebec Natural Gas Corporation	5 3/4	Apr. 1, 1985	50,000	41,000
City of Montreal	7	Jan. 1, 1992	20,000	19,650*
Municipality of Metropolitan Toronto	5 1/2	June 15, 1985	50,000	45,250
Central Covenants (Holdings) Ltd. S.F. Deb.	6 1/4	Sept. 1, 1990	25,000	22,125
Blue Bonnets Raceway Inc. Conv. Deb.	6 1/2	Nov. 15, 1982	35,000	32,200
Blue Bonnets Raceway Inc., 1st Mtge S.F.	6 3/4	Nov. 15, 1982	50,000	46,500
Northwest Nitro-Chemicals Ltd.	6	June 30, 1979	46,000	38,640
Eastern Provincial Airways	6 1/2	Mar. 15, 1991	25,000	23,500
Bell Telephone Company	6 1/8	July 15, 1987	25,000	24,125
Home Oil Co. Ltd. Conv. Deb.	5 1/2	Dec. 1, 1984	75,000	92,625
Trans Canada Pipelines Ltd.	5	Dec. 1, 1989	50,000	45,750
Millhaven Fibers Ltd., 1st Mtge	7 1/2	Dec. 1, 1986	50,000	50,500
International Bank for Reconstruction and Development	6 1/4	Jan. 4, 1992	75,000	74,156*
Commonwealth of Australia	6 1/2	Jan. 1, 1977	(U.S.) 50,000	52,825*
Southern California Gas Company 1st Mtge series "G"	5 7/8	Dec. 1, 1991	(U.S.) 75,000	82,934*
			\$951,000	930,967
NET CASH, RECEIVABLES AND SECURED NOTES				72,113
TOTAL NET ASSETS				\$1,003,080



CANADA SECURITY FUND

BALANCE SHEET as at December 31, 1966

	1966 \$	1965 \$
ASSETS		
Investment in bonds — at quoted market value (average cost 1966 — \$958,443 principal amount \$951,000, average cost 1965 — \$994,456 principal amount \$1,005,000)	930,967	985,863
Short-term notes (note 2)	107,000	135,000
Cash	33,562	51,669
Subscriptions receivable for shares of the Fund sold	19,166	—
Accounts receivable from sale of investments	344,457	125,642
Accrued interest receivable	8,987	8,165
	1,444,139	1,306,339
LIABILITIES		
Accounts payable for shares of the Fund redeemed	313	—
Accounts payable for purchase of investments	425,604	293,951
Accrued expenses	1,900	1,640
Income distribution payable January 16, 1967 (note 3)	13,242	10,954
	441,059	306,545
SHAREHOLDERS' INTEREST		
Shares of no par value issued and outstanding (note 4)		
Issued since inception 285,026.674 shares	1,411,092	1,172,434
Redeemed 76,309.920	370,825	162,465
Balance outstanding 208,716.754 shares	1,040,267	1,009,969
Realized and unrealized losses on investments	37,187	10,175
	1,003,080	999,794
	1,444,139	1,306,339
Net asset value per share	4.81	4.94

Approved on Behalf of the Manager

J. B. SPARLING, Director

R. R. TILDEN, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet and portfolio of investments of Canada Security Fund as at December 31, 1966 and the statements of income and distribution and realized and unrealized losses on investments for the two years ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, when read in conjunction with the notes thereto, the accompanying balance sheet and statements of income and distribution and realized and unrealized losses on investments present fairly the financial position of the Fund as at December 31, 1966 and the results of its operations for the years indicated and the portfolio of investments presents fairly the information it purports to present, the whole in accordance with generally accepted accounting principles applied on a consistent basis throughout the years.

Montreal 2, Canada
January 12, 1967

McDONALD, CURRIE & CO.
Chartered Accountants



CANADA SECURITY FUND

STATEMENT OF INCOME AND DISTRIBUTION for the two years ended December 31, 1966

	1966	1965
	\$	\$
Interest from investments	<u>57,840</u>	<u>29,127</u>
Operating expenses (note 5)		
Management fee	4,951	3,384
Trustees fee	1,360	2,462
Printing	2,400	2,400
Legal	250	245
Audit	850	850
	9,811	9,341
Less: Portion thereof paid by the Manager	<u>2,384</u>	<u>4,266</u>
	7,427	5,075
Net income for the year	<u>50,413</u>	<u>24,052</u>
Portion of value of shares issued or redeemed during the year applicable to their participation in the distribution account (note 4)	<u>566</u>	<u>3,063</u>
Distribution to shareholders	<u>50,979</u>	<u>27,115</u>
Income distribution to shareholders —	1966	1965
	Cents	Cents
1st quarter	5.77	4.53
2nd quarter	6.50	4.77
3rd quarter	6.45	4.95
4th quarter	6.32	5.42
Total	<u>25.04</u>	<u>19.67</u>
	<u> </u>	<u> </u>
	1966	1965
	\$	\$

	Year ended December 31	
	1966	1965
	\$	\$
Balance — beginning of year	<u>10,175</u>	<u>—</u>
Unrealized — increase during the year in the excess of cost of investments held over their market value	<u>18,883</u>	<u>8,593</u>
Realized — losses during the year on sales of investments	<u>8,129</u>	<u>1,582</u>
Balance — End of year	<u>37,187</u>	<u>10,175</u>
Represented at December 31 by:		
Unrealized — excess of cost of investments held over their market value	<u>27,476</u>	<u>8,593</u>
Realized — accumulated losses on sales of investments	<u>9,711</u>	<u>1,582</u>
	<u> </u>	<u> </u>
	1966	1965
	\$	\$

NOTES TO FINANCIAL STATEMENTS for the two years ended December 31, 1966

- The Fund was established on December 31, 1964 and commenced operations on that date.
- The short-term notes held by the Fund consist of the following:
\$32,000 5 3/4% secured notes of Nesbitt, Thomson and Company Limited payable on demand.
\$75,000 6 1/4% note of Loblaw Grocerterias Co. Ltd. payable January 4, 1967.
- On December 30, 1966 the Fund declared an income distribution of \$13,242 to shareholders of record on that date.
- During the year 50,287.093 shares of the Fund were issued for cash of \$238,658. Also during the year 43,760.919 shares of the Fund were redeemed for \$208,360 cash. In addition, a net credit of \$566 for 1966 and \$3,063 for 1965 have been included in the

statement of income and distribution, representing the portion of value of shares issued or redeemed during the years applicable to their participation in the distribution account.

5. The Manager has agreed to pay all operating expenses of the Fund to the extent that in total they exceed 3/4% of the average net assets.

6. The market values of investments quoted in foreign funds have been converted to Canadian funds at the rate of exchange prevailing as at December 31, 1966 and their costs at the rate prevailing on the dates of acquisition.

7. Purchases of the securities, marked with an asterisk on the portfolio of investments, have been contracted on an "if, as and when issued" basis.

SERVICES FOR SHAREHOLDERS

SYSTEMATIC INVESTMENT PLAN

It is possible to acquire a holding in Canada Growth Fund or Canada Security Fund by means of a Systematic Investment Plan which provides special privileges and options for the planholder. The plan is available in denominations of \$20 per month and up. Shares being thus accumulated are held in safekeeping by the plan custodian, Crown Trust Company. Individual planholder accounts are maintained, deposits are processed, statements of account are mailed out and other services performed which are outlined in detail in a plan certificate which is the official plan contract between the planholder and Planned Investments Corporation.

In addition to all the other planholder services, the planholder has the privilege of withdrawing up to 90% of the value of his plan at any time after making 20 monthly deposits or the equivalent with the retention of the right of re-entry whenever he wishes without any new sales charge. This, in effect, gives the planholder an indefinite option to liquidate and reinvest without cost in accordance with the needs of his personal situation. In order to safeguard the interests of fund shareholders at large, Planned Investments Corporation reserves the right to restrict the exercise of the partial withdrawal option to once in any calendar year. Systematic Investment Plans qualify for a reduced sales charge when the anticipated total of the ten year agreed deposits falls into one of the discounted levels. Special Executive Plans are available on a discounted basis with agreed deposits of \$25,000, \$50,000 and \$100,000. Such plans can result in significant savings in sales charges as compared with ordinary share purchase methods.

CAPITAL INVESTMENT PLAN

The facilities of a plan contract as described above are also made available in the form of a single deposit plan known as a Capital Investment Plan. The minimum initial deposit to open such a plan is \$1,000. Provision is also made for additional deposits at the option of the planholder in amounts of \$500 or more.

PLAN INSURANCE

The Systematic Investment Plan is offered with optional group life and disability insurance. This coverage guarantees the completion of the agreed payments under a Systematic Investment Plan in the event of either the death or total disability of a planholder.

CUMULATIVE OPEN ACCOUNT

This is an informal, voluntary program under which, subject to the minimum deposits, the investor may invest as much as he chooses as often as he wishes. It is flexible and may be readily adjusted to the investor's financial circumstances and needs. The program provides for a minimum initial investment of \$500 and subsequent cash investments of \$100 or more. Statements of account are issued to account holders on receipt of each deposit.

QUANTITY DISCOUNTS

Any number of shares of the Funds may be acquired at any given time at the same price per share. The maximum sales charge for the smallest purchases is 9% of the offering price. Discounts from the regular offering price are applicable to purchases of \$12,000 or more, on a graded basis. The sales charge on the largest purchases is reduced as low as 1%.

LETTER OF INTENT

Investors intending to purchase shares in an amount of \$12,000 or more within a period of 13 months, but who may not find it convenient to make the full deposit at one time, may make use of a Letter of Intent. By this means,

each part of the total investment made during the 13 month period of the agreement can qualify for the discount from the regular offering price which would apply if the total investment were made at one time.

CUMULATIVE DISCOUNT

Where previous individual purchases of shares did not aggregate and qualify for discount, but a subsequent individual purchase of shares, when combined with such previous purchases still held, aggregates and qualifies for discount, then the appropriate discount applies on the last of such purchases and subsequent purchases qualify in a similar manner. For the purpose of such discounts, purchases of both Canada Growth Fund and Canada Security Fund may be considered as one amount.

AUTOMATIC REINVESTMENT OF INCOME DISTRIBUTIONS

Income distributions declared by both Canada Growth Fund and Canada Security Fund are automatically reinvested at net asset value in additional shares of the Funds, except in the case of shareholders who elect to receive their distributions in cash. This provides shareholders with an efficient means of securing maximum compound growth of their investment, frequently difficult or impossible to achieve in other investment media.

MARKETABILITY

The Funds provide a market at all times for their shares. Each Fund stands ready to redeem its shares at their full current net asset value on any business day, without redemption charge. Such net asset value is calculated on every day on which the Montreal Stock Exchange is open. This important feature, unique to mutual funds, provides for the investor the valuable feature of liquidity so important to efficient investment administration by individuals or institutions which otherwise might have to maintain large cash or relatively unproductive cash-equivalent balances.

TAX ADVANTAGES FOR THE INVESTOR

As unincorporated investment trusts, Canada Growth Fund and Canada Security Fund pay no income tax. A significant part of the total investment performance of Canada Growth Fund, and to a lesser extent Canada Security Fund, is in the form of tax free capital gains. Shareholders of the Funds must individually declare their share of the net income of the Funds from year to year. Canadian resident shareholders may claim the 20% dividend tax credit in respect of that part of Canada Growth Fund distributions which is in the form of dividends from taxable Canadian corporations. Income from non-Canadian securities is usually subject to withholding tax in the country of origin. To the extent permitted by the applicable Canadian tax laws, the amount of any such tax withheld may be deducted from Canadian income tax payable by the shareholder. Shareholders of the Funds receive an income tax Form T-3 each year from the Funds, which identifies the nature and amount of the taxable income from the Funds in the previous year, to facilitate the preparation of individual income tax returns.

SYSTEMATIC INCOME PLANS

The ultimate purpose of most investing is to build or create capital which can serve its owner by providing income convenient to use. Frequently shareholders will wish to secure the advantage of the performance objective of Canada Growth Fund or Canada Security Fund, and yet, at the same time, either immediately or at that time which suits their needs, secure regular monthly or quarterly income from one of the Funds without being limited to the actual income distributions available from the Funds. This is made possible for the shareholder whose shares have a minimum value of \$5,000 by means of the modern device known as the Systematic Income Plan. Accordingly, such shareholders can arrange to receive from the Funds monthly or quarterly cheques on the basis of three options:

- (1) Ratio income by selected percentage of average assets;
- (2) Fixed dollar income;
- (3) Fixed period income designed to produce maximum adjusted withdrawals to exhaust a holding in a selected period from one to twenty years.

These systematic income arrangements are designed to enable a shareholder to meet personal income requirements by making current use of some of the average total fund performance. Naturally, the lower the income which is drawn relative to the total value of shares held, the greater the prospect of long-term growth in value of the account. The systematic income plan is an efficient income device and can be of great benefit provided it is properly understood by the shareholder. It is important to appreciate, however, that under conditions where systematic withdrawals may be in excess of average income distributions and net capital appreciation combined, they may result in encroachment on original capital.

TAX APPROVED RETIREMENT SAVINGS PLANS

Arrangements have been made for the shares of the Funds to be employed as an approved means by which a shareholder can take advantage of the privilege extended to a Canadian resident of making contributions to a Retirement Savings Plan as authorized by Section 79B of the Income Tax Act. Amounts deposited to such a Plan up to the end of February in any year qualify for deduction from the planholders' previous year's taxable income, provided such amounts are not in excess of the allowable limits under the terms of Section 79B of the Income Tax Act.

SHARE EXCHANGE PRIVILEGE

Shareholders of either Canada Growth Fund or Canada Security Fund have the privilege of exchanging their shares for shares of equal value in the other of the two Funds, without sales charge.

PAYROLL INVESTMENT PLANS FOR INDUSTRY

Arrangements are available by which shares of the Funds may be accumulated through a simple pay assignment procedure as a service to employees. Such plans can make an ideal complement to other employee benefits, and can make the search for security increasingly painless, automatic and efficient. A consolidated billing system is provided by the general distributor of the Funds. Special flexible arrangements and group or individual counseling services are provided.

INCENTIVE COMPENSATION PLANS

A plan is available through the general distributor by which the shares of the Funds may be used as the investment media to support an incentive compensation plan in industry. This is an arrangement by which an employer may accumulate deferred benefits for selected key employees which provide both employer and employee with tax advantages, and which through the attractive cumulative investment results which can be generated, can represent an effective influence toward the retention of such personnel by the employer.

DEFERRED PROFIT SHARING PLANS

The general distributor makes available a plan which is approvable for tax purposes under Section 79C of the Income Tax Act by which an employer can accumulate shares of the Funds in a Deferred Profit Sharing Plan. This is an effective means of bringing the dynamic investment benefits of professional management into such programs for the larger potential benefit of the participants.

CORPORATE PENSION FUND INVESTMENT PLANS

Shares of both Canada Growth Fund and Canada Security Fund are being accumulated regularly by a number of registered corporate pension funds. The combination of

the two Funds makes it possible for a pension fund to be invested in accordance with any particular investment policy the pension fund trustees may wish to follow. Letters of Intent and cumulative discount arrangements can make the use of the Funds an economical investment method for the purpose, while, at the same time, offering the prospect of effective investment results with a consequent beneficial effect on the level of pensions relative to cost.

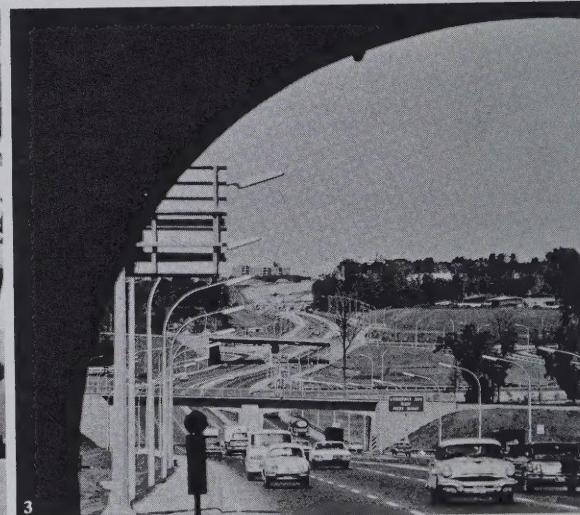
CONVENIENCE

The Funds free shareholders from investment care in that safekeeping of securities, bookkeeping, attending to proxies and rights, and accounting for income from many sources are all provided for by the Funds. The Funds perform all of the detail work which the investor would otherwise have to do himself if he owned a considerable number of individual stocks or bonds.

In addition, through the various special facilities for systematic deposit, systematic income, automatic reinvestment of income and regular statements of account, the shareholder enjoys a number of privileges and options which can be employed to serve his own individual purposes with continuity and effectiveness otherwise difficult to achieve.

If you receive an extra copy of the Report, would you please give it to a friend. The cost of completely preventing duplicate mailings to those with two or more accounts would far exceed the extra cost of printing and mailing.

Further information and service may be obtained by contacting Planned Investments Corporation, 2055 Peel Street, Montreal, Tel.: 849-9225. (After April 15, 1967 — Place du Canada, Montreal Tel.: 866-9921).



A contemporary nation. (1) Toronto's modern city hall with its mushroom-shaped council chamber (2) Yorkdale Plaza, Toronto, the world's largest indoor shopping mall (3) a busy Canadian limited-access expressway.

CANADA TODAY: The Boom No One Noticed

Surging to Nationhood

Long into the night the combines clattered and roared, their headlights probing like huge pale fingers into the golden sea of Saskatchewan's wheat-fields. As the harvest gathered momentum across the 1,000-mile sweep of the Canadian prairies last week, the empty, echoing granaries filled with the largest crop in the nation's history—a crop that is already sold out, as is all the grain the prairies can grow for the rest of the decade. With the rumble of the harvest came a cacophony of Canadian sounds that, taken together, sounded unmistakably like boom.

Among the scrub pines and lakes of the Manitoba wilderness, where only the cry of the loon could be heard a few years ago, the stillness was shattered by the hissing and hammering of the world's largest nickel mine and smelter. In the Alberta foothills northwest of Edmonton, the ring of sledge hammer on steel counterpointed the polyglot curses of Portuguese, Greek and Italian gandy dancers, pushing the Alberta Resources Railway 111 miles north to the coal and gypsum deposits of the Peace River country.

Farther to the north, construction crews swarmed over the superstructure of a \$230 million Great Canadian Oil Sands Ltd. processing plant that next year will begin tapping the Athabasca tar sands—an oozing black oilfield the size of Maine, which contains as much petroleum as all the world's proven reserves.

The bulk of Canada's 20 million people are clustered within an hour's drive or two of the U.S. border. Many of the nation's cities are within reach of wilderness where Indians still hunt deer. Canada remains one of the world's last frontiers, but it is subduing nature with the tools of modern technology rather than oxcarts and covered wagons.

No man exemplifies that spirit of machine-tooled pioneering better than British Columbia's Premier William Andrew Cecil Bennett, 66, full-time politi-

cian and part-time prophet. He feels that Canada's thin population belt must push into the undeveloped North and the still developing West. "Canada is as broad as the U.S.," Bennett says, "but only half an inch deep. Until we push up from the border, we just won't go anywhere." Bennett himself has been pushing for 14 years, and it is his sort of effort that lies behind Canada's hope for the future.

Looser Reins. On the eve of its 100th birthday, Canada is surging with unprecedented prosperity—a prosperity that its American next-door neighbor is scarcely aware of. That ignorance is doubly ironic since it is largely because of U.S. capital investment—\$8 billion in the past decade—that the Canadian boom was launched. Much of that ignorance will be dissipated during 1967, Canada's centennial year, when Americans in considerable numbers will head north of the border to visit Expo 67, the Canadian world's fair in Montreal...

Visitors to Canada in its centennial year will see a phenomenon subtler than the fair's attractions: a nation still in the painful process of realizing its own identity. When Prime Minister Lester Pearson's Liberal government came to power three years ago, some wondered whether there would be a Canada, at least in its present form, to celebrate the centennial. The French-speaking third of the population was demanding ever more stridently that Ottawa loosen the reins of strong central control acquired during World War II and permit French Canada to go its own way. Separatist fanaticism was fanned by extremist parties, which demanded that Quebec secede from the Canadian confederation and assume national sovereignty on its own.

Over the past three years, Pearson has allowed the delicate balance between Ottawa and the provinces to alter. He has eased up on central control and given in to provincial demands

for a larger share of federal tax revenues. He has gone far to ease French Canada's sense of second-class citizenship by massively promoting the use of Canada's two languages throughout the civil service and the armed services...

Visitors Welcome. Such concerns aside, Canada is justly proud of its achievements. Next year's centennial shivaree will symbolize this pride. It will be the longest and one of the most expensive birthday blowouts any nation has ever had. At the spectacular harbor site of Expo 67, on mainly man-made islands in the St. Lawrence River, the pavilions of 70 nations, which are now abuilding, will welcome visitors. Queen Elizabeth and Prince Philip have already accepted invitations. The Parliament buildings in Ottawa will provide a backdrop for a May-to-October son et lumière spectacle, and Sir Tyrone Guthrie, the Shakespearean showman who launched Canada's Stratford, will produce a centennial spectacle on Parliament Hill.

As part of the celebrations, 2,500 cities and towns have adopted civic projects that range from Ottawa's plan to plant 70,000 flowering crab apple trees to a Japanese garden in Lethbridge, Alta., that expects to get a school of royal carp from Emperor Hirohito's moat. Athletically, Canada will be host to no fewer than 17 international competitions, from snowshoeing (in Ottawa) to water skiing (in Sherbrooke, Que.) to the Pan American games in Winnipeg.

When the centennial bells ring out, wildly, in the tiny outport churches of Newfoundland, in the cathedrals of Quebec City, in Peace Tower on Parliament Hill, in prairie steeples and out to the West Coast, they will ring in a 100th year that Canadians should indeed find a cause for cheer. In the sound and fury of the centennial celebrations, Canadians are bound to hear echoes of their own success in turning the wilderness into a thriving nation.





CANADA GROWTH FUND



CANADA SECURITY FUND

Members, The Canadian Mutual Funds Association

MANAGER

PLANNED INVESTMENT MANAGEMENT LTD.
Montreal, Canada

DIRECTORS

KENNETH J. DOIG, F.C.I.S.
R. FRASER ELLIOTT, Q.C.
JOSEPH S. LAND
JOHN B. PENNEFATHER
JOHN B. SPARLING
R. DUDLEY STEWART, C.A.
ROBERT R. TILDEN

INVESTMENT ADVISER

CANADA GROWTH FUND
VANCE SANDERS & COMPANY OF CANADA LIMITED
Montreal, Canada

INVESTMENT ADVISER

CANADA SECURITY FUND
FULLERTON, MACKENZIE & ASSOCIATES LTD.
Montreal, Canada

SPONSOR AND GENERAL DISTRIBUTOR

PLANNED INVESTMENTS CORPORATION
Head Office: 2055 Peel Street
(After April 15th — Place du Canada)
Montreal, Canada

TRUSTEE

CROWN TRUST COMPANY
Montreal, Canada

AUDITORS

MCDONALD CURRIE & Co.
Montreal, Canada

LEGAL COUNSEL

STIKEMAN, ELLIOTT, TAMAKI AND MERCIER
Montreal, Canada